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The President's Daily Brief

30 December 1971

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~~*Top Secret*~~

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THE PRESIDENT'S DAILY BRIEF

30 December 1971

PRINCIPAL DEVELOPMENTS

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In Yugoslavia, resolution of a dispute over foreign exchange between the federal government and the republics may help ease the situation in Croatia. *(Page 4)*

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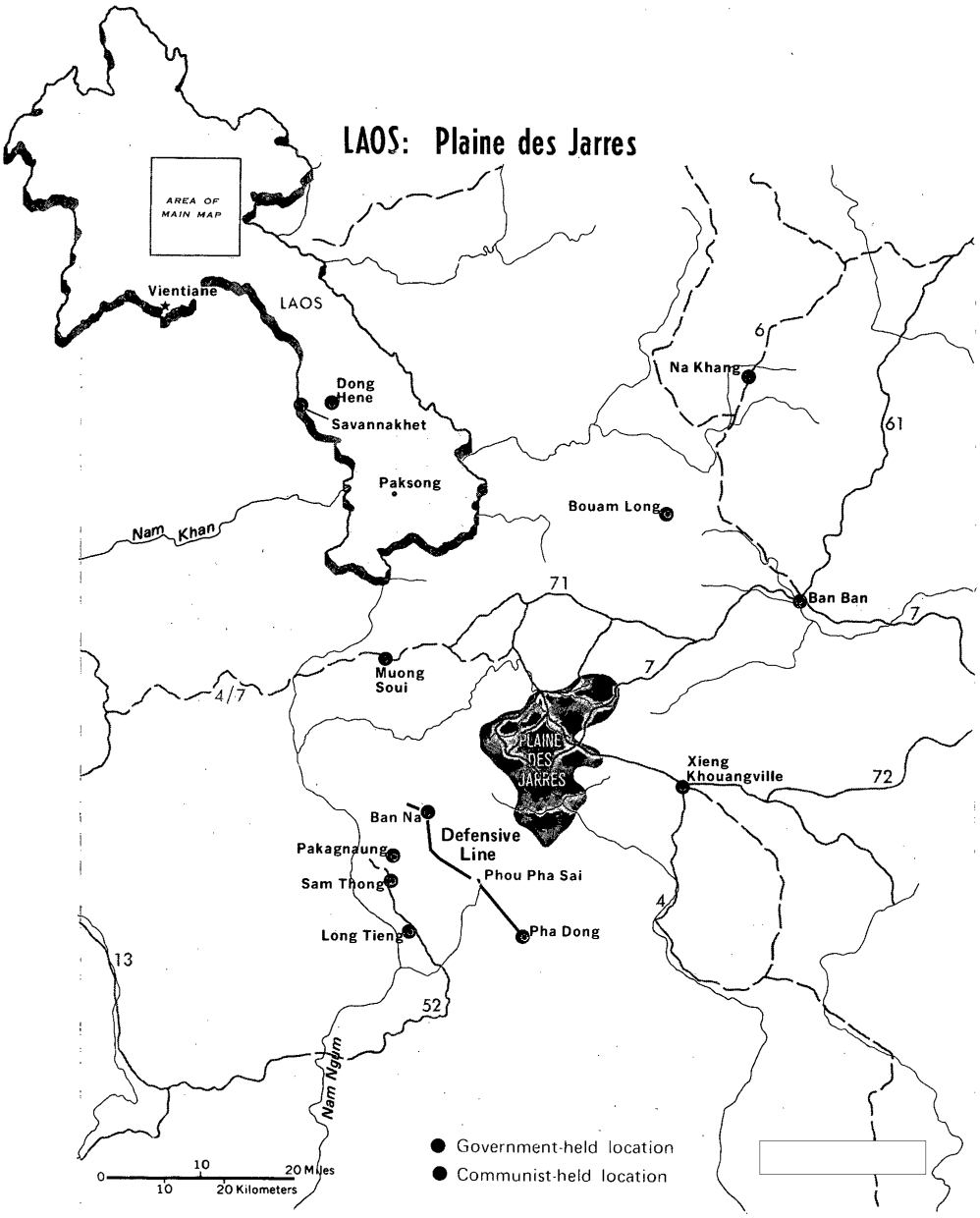

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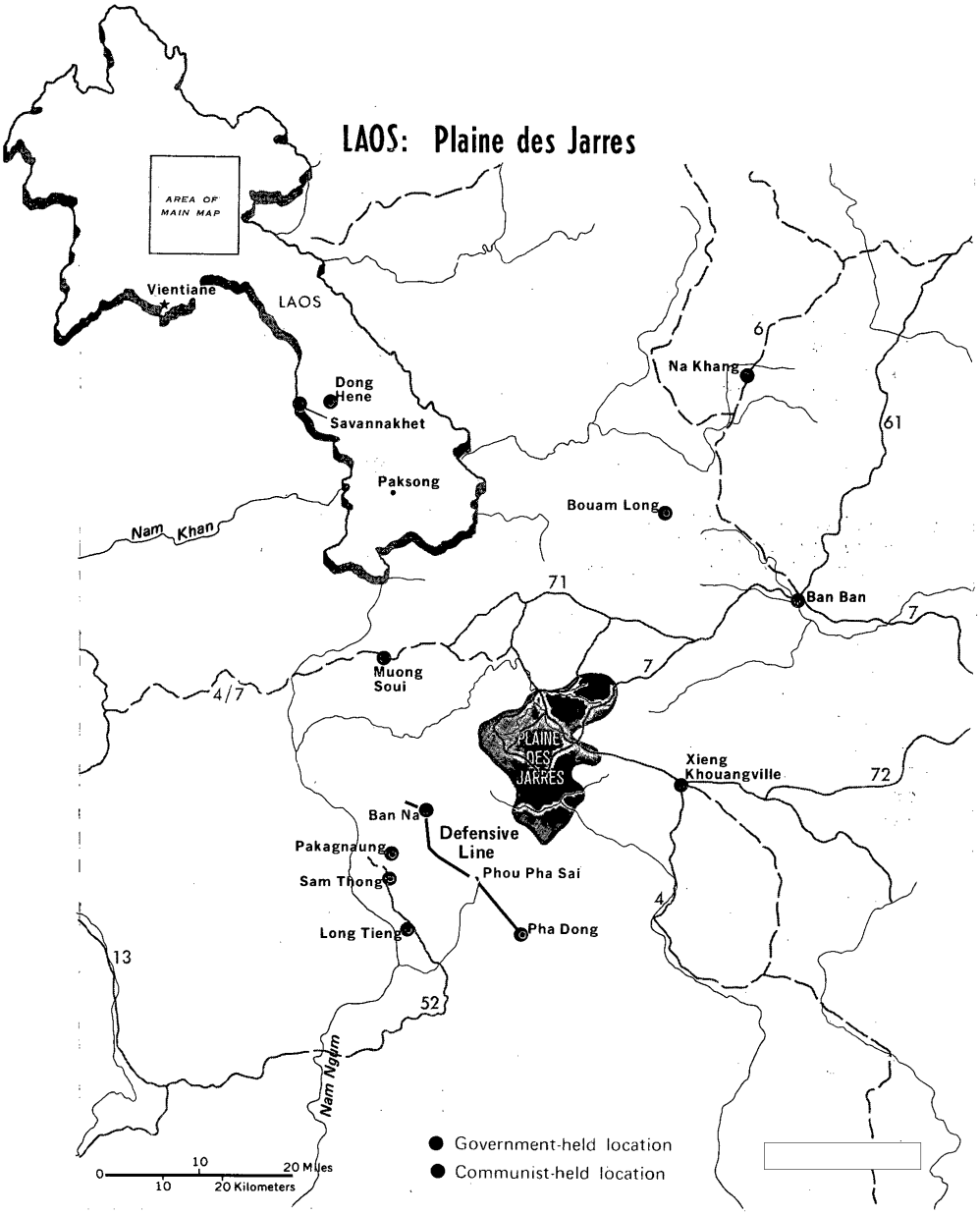

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LAOS

The North Vietnamese are continuing their effort to get men and supplies into position for an attack on the Long Tieng complex before the government can regroup its forces and dig in. Air observers report heavy traffic on Communist infiltration trails into the area southwest of the Plaine. Enemy units are in the Phou Pha Sai area and the 174th Regiment of the 316th Division remains near Ban Na. Captured documents indicate that the North Vietnamese intend to employ their 130-mm. field guns to support a ground assault on the Long Tieng complex. Priority efforts are being made to locate these guns and destroy them by air strikes.

One government irregular force of 320 men is moving three miles north of Sam Thong to take up high ground positions near Pakagnaung. Two other irregular battalions are moving to close the gap in the defensive line at Phou Pha Sai. So far neither group has met resistance. Six more battalions are soon to be moved to Long Tieng--including four more of the irregular units from Savannakhet that have proved very effective in south Laos.

According to the US Embassy in Vientiane, the introduction of 11 new battalions, as well as the replacement of artillery weapons and the prospect of additional reinforcements, have improved morale among Vang Pao's Meo forces. Troops are again responding to direction and are moving forward to take up positions in the defensive line. Vang Pao will also be aided by the transfer to Long Tieng of General Thao Ly, until recently the irregular commander in Savannakhet, who will direct the eight Savannakhet battalions that will be operating out of Long Tieng. Thao Ly has been an unusually effective field commander.

Farther south, Communist units appear to be maneuvering into position near Dong Hene on Route 9 in the western panhandle. The town has been under sporadic rocket attack for the last week and civilians are said to have begun to leave the area. Air observers have reported that Communist units appear to have bypassed government blocking positions north

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and south of Dong Hene. Patrol clashes have increased near Seno, farther west along Route 9, and enemy units may plan new raids against irregular training sites north of that town. Lao Army commanders believe the North Vietnamese will take the offensive to disrupt the Lao National Assembly elections scheduled for 2 January.

A North Vietnamese offensive along Route 9 would also create pressure for the return to Savannakhet of some of the battalions sent to Long Tieng.

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EGYPT

President Sadat, in his year-end policy statement on 28 December, finessed his earlier deadline for a "decision" in 1971. Instead, he stressed that all resources were now being mobilized for the "battle of liberating occupied territories."

> *Despite his reiteration of the theme that hostilities are inevitable, Sadat's refusal to be drawn out on the timing of the "battle" and his emphasis on the need for further preparedness on the domestic front represent thinly veiled reminders to the Egyptian people that Egypt is not ready to take on Israel.*

In contrast to his two particularly tough speeches late last month, Sadat this time focused more attention on the need to pursue political efforts as well as to strengthen the armed forces, and he dismissed any idea of abandoning diplomatic moves. Although he repeated his assertion that Washington's bias toward Israel had brought negotiations to a dead end, Sadat indicated that the door remains open to "all diplomatic contacts."

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YUGOSLAVIA

The federal government has agreed to allow the constituent republics to retain a considerably larger share of their foreign exchange earnings.

The accord will help to defuse the situation in Croatia, where the issue had become intertwined with nationalistic aspirations that in turn led to the recent purge of the republic's leaders. The agreement should also lessen the resentment of the economically advanced republics (Croatia and Slovenia) over their large contributions to the development of the poorer republics.

Resolution of this issue will provide a real boost to the economy and is an important step toward long-term economic liberalization. The advanced republics will be able to import more up-to-date technology, as they have long wished. At the same time, the less developed regions are guaranteed a "special place" in the new foreign exchange system. The agreement has yet to be promulgated into law.

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ITALY

The government of Prime Minister Colombo, whose pro forma resignation was rejected yesterday by President Leone, is still facing serious hurdles in both the economic and political spheres.

--Strong inflationary pressures persist, while the economy shows no signs of recovery from a fall-off of production and slack investment.

--Colombo remains under pressure, especially from organized labor, for reforms he considers untimely.

--The smaller parties allied with his Christian Democratic party in the center-left coalition have been threatening a showdown on policies and perquisites following the presidential election.

Colombo is likely to meet the economic problem by speeding up the release of public works funds and increasing investment in state enterprises. Although he will implement social reforms that have already been approved, he will be hesitant to commit funds for additional reforms in view of continuing inflation.

The small Republican Party is especially adamant that any new reform legislation be dependent on assured financing. [redacted] 50X1
the party may bolt the center-left bloc this week, which could precipitate a crisis.

The Colombo government must balance such demands against those of the Socialists, who are closer to the Communists and favor faster reform than the other members of the center-left bloc. The gap between the Socialists and Christian Democrats has widened further as a result of the presidential balloting, but the Socialists are unlikely to want to pull out of the government, at least before their party congress in late February.

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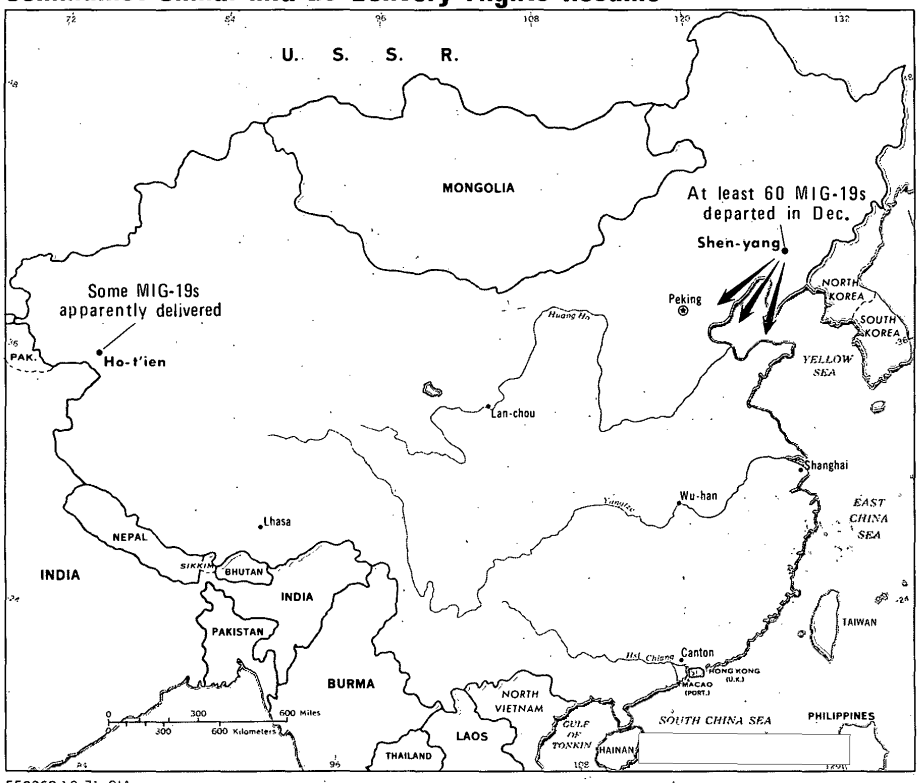
Communist China: MIG-19 Delivery Flights Resume



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COMMUNIST CHINA

[redacted] deliveries to combat units of new MIG-19 fighters are resuming after a hiatus of several months. Our evidence indicates that at least 60 of the new aircraft have left the Shen-yang plant so far this month. 50X1

Delivery flights have generally lagged this year, and this, along with record production rates, has resulted in a large accumulation of new aircraft at production facilities. The backlog consists primarily of some 600 MIG-19s and 100 F-9 jet fighter-bombers. (The F-9 is an aircraft of native Chinese design.) With production of new MIG-19s continuing at a rate of about 50 a month, a high rate of deliveries for up to a year may be needed to disperse the backlog.

Some 17 of the MIG-19s delivered this month apparently went to western China. Their ultimate destination may be Pakistan, [redacted] 50X1
[redacted] 50X1
[redacted] *at Ho-tien, the west China field previously used for such deliveries.* 50X1

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NOTES

International Monetary Developments: The US dollar has strengthened in nearly all major markets, forcing some central banks to intervene to prevent the dollar from exceeding its newly established ceilings. The heaviest trading of dollars has occurred in Japan, followed by France, Canada, and the UK. Some of the reacquired dollars have been invested in the US. The remainder have returned to the Eurodollar market. A larger switch into dollars is expected early next year after many international corporations complete their year-end bookkeeping. Probably as much as $10 billion will flow from foreign markets back to the US over the next few months.

UK-Malta: London announced yesterday that it was beginning preparations to withdraw its forces from Malta in response to Prime Minister Mintoff's ultimatum. The British have informed Mintoff, however, that the withdrawal--involving some 3,500 military and about 7,000 dependents--cannot be completed by his deadline of 1 January. London still hopes that, if the pull-out can be stalled sufficiently, the Maltese will become more aware of the economic consequences and force Mintoff to reconsider. Mintoff, who appears to have the full support of his cabinet, is already taking his case to the public vigorously, and formal opposition will be hampered by the fact that the parliament is not currently in session.

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